



## FIRST THINGS FIRST

*Ready for School. Set for Life.*

### AGENDA ITEM:

Management Letter

### CEO RECOMMENDATION(S):

- Receive Management Letter on FTF financial and presentation and accounting practices.

### DISCUSSION:

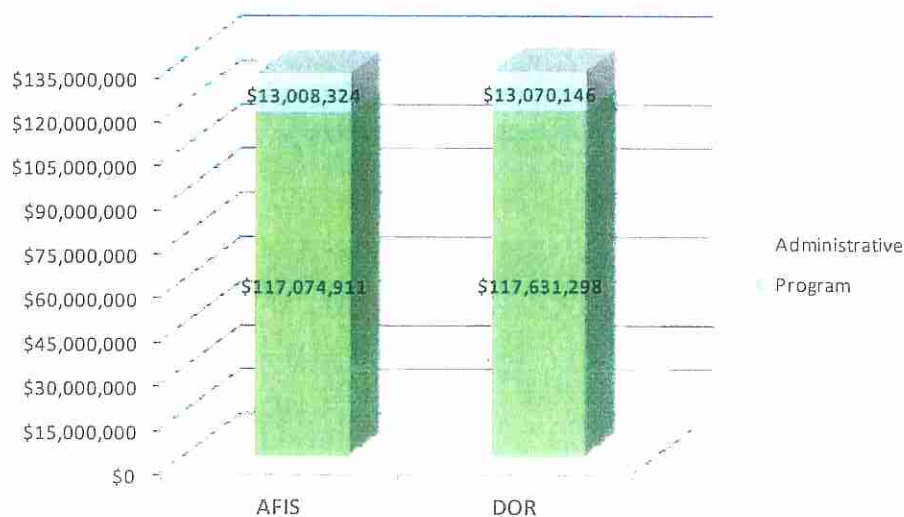
Attached is a copy of a Management Letter received in conjunction with the recently completed audit. This letter is intended to provide guidance to FTF and its Board on improving future financial accounting processes and provide additional insights into specific areas reviewed as part of the Audit.

Two key accounting issues arose during the audit. The first of which centered on the accounting of revenue and which year it was booked to, and the second on how payables should be reported to provide the greatest transparency as to who and within which fund dollars are owed. FTF has agreed the changes suggested in the attached are necessary and appropriate to provide a true and accurate accounting of its funds.

As it relates to FY11, the changes impact FTF's presentation of financial data as seen in the following two tables. The revised presentation is included in the FY11 audit. The second table showing assets and liabilities is collapsed to allow for an easier "before and after" presentation (in the FY11 audit this data is separated between assets and liabilities).

Table 1: FTF FY11 Tobacco Tax Revenue

	AFIS	DOR	Difference
Program	\$117,074,911	\$117,631,298	\$556,387
Administrative	\$13,008,324	\$13,070,146	\$61,822
Total Tobacco Tax Revenue	\$130,083,235	\$130,701,444	\$618,209



The revenue change presented relates to booking July revenues. In order to show an accrued accounting, FTF will need to receive a report from DOR and move revenues booked in AFIS, as the next fiscal year's, back into the previous. This adjustment will align these figures with how all other financials are presented, and FTF's Fiscal Year financials will uniformly only tie to AFIS's Appropriation Year (AY).

Table 2:

## FIRST THINGS FIRST

As of June 30, 2011

	Operations		Program			Total	
	Fund 2543 Tobacco Admin	Fund 2544 Private Gifts	Fund 2542 Tobacco Grants	Fund 2545 Other Grants	Fund 2000 Federal Grants	Fund 2999 Federal Grants	
*FY11 Asset/Liability Accounts Pre-Audit Journal Entries							
Cash on Hand	\$724,474	\$8,618	\$17,582,069	\$19	\$36,929	\$72,866	\$18,424,976
Cash on Deposit	\$82,197,660	\$0	\$352,197,407	\$0	\$0	\$0	\$434,395,067
Payroll Accrual	<del>(\$508,160)</del>	\$0	<del>(\$100,678)</del>	\$0	\$0	\$0	<del>(\$608,842)</del>
Claims Payable	<del>(\$181,858)</del>	\$0	<del>(\$18,954,787)</del>	\$0	<del>(\$51,250)</del>	<del>(\$860,355)</del>	<del>(\$20,105,850)</del>
Accounts Receivable	\$837,821	\$0	\$8,679,434	\$0	\$14,463	\$787,498	\$10,319,216
Net Balance	\$83,062,935	\$8,618	\$359,363,464	\$19	\$0	\$0	\$442,435,037
FY11 Asset/Liability Accounts Post-Audit Journal Entries							
Cash on Hand	\$724,474	\$8,618	\$17,582,069	\$19	\$36,929	\$72,866	\$18,424,976
Cash on Deposit	\$82,197,660	\$0	\$352,197,407	\$0	\$0	\$0	\$434,395,067
Payroll Accrual	<del>(\$498,074)</del>	\$0	<del>(\$100,678)</del>	\$0	\$0	\$0	<del>(\$598,752)</del>
Claims Payable	<del>(\$201,865)</del>	\$0	<del>(\$18,885,812)</del>	\$0	<del>(\$1,250)</del>	<del>(\$18,700)</del>	<del>(\$20,105,468)</del>
Accounts Receivable	\$837,821	\$0	\$8,679,433	\$0	\$14,463	\$787,498	\$10,319,215
Due From (Asset)	\$250,000		\$889,047				\$1,139,047
Due To (Liability)							
Net Balance	\$83,062,935	\$8,618	\$359,363,465	\$19	\$0	<del>(\$0)</del>	\$442,435,037

\*Assuming DOR Revenue figures and prior year's accrual based balances.

To further detail its payables, FTF will create Due From/To accounts within its system. This addition will provide greater detail on the balances owed between funds while also providing an easily referenced figure for the amount owed to vendors (since Accounts Receivable will now reflect only these figures and not be netted against any inter-fund receivables).

In addition to these presentation issues, two process issues were raised as a result of the audit. These included a management review and approval of trial balances before their submission for audit, and performing a more deliberate review and verification of monthly payroll expenditures.

With respect to the first issue, FTF believes this adds value and accountability to the process and as such the CFO in consultation with senior financial staff will review and sign off on trial balances before they are submitted to auditors for analysis and review.

In regards to monthly payroll review, FTF had already initiated development of an extensive position control and payroll expenditure report. This reporting functionality (once complete) will enable budget/personnel managers to reconcile monthly expenditures easily, and allow staff to relate those expenditures to pay-code hours as entered into the system.

Finally, as part of the audit process, FTF leadership reviewed the important issue of controls, and the separation of duties and approvals within the accounting system. The impetus for this review centered on anticipated changes in staffing as well as the understanding that operating budget limitations would

always be present. With this backdrop, and FTF's desire to maintain a high standard of fiscal responsibility, this review involved both internal discussions and consultation of the audit team. As a result of this review, FTF will add some additional processing support by redistributing workload and responsibilities within the Finance area such that more effort will be directed to accounting functions (equating to the addition of about 0.5 FTE to the processes). Additionally, staff within the accounting, purchasing, and payroll area will be provided and encouraged to engage in professional development opportunities.

Through these efforts and the on-going work of the financial services team, FTF looks forward to the FY12 Year End Audit showing no material weaknesses and/or significant findings.





Board of Directors  
Arizona Early Childhood Development and Health Board

We have audited the financial statements of Arizona Early Childhood Development and Health Board for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 1, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Arizona Early Childhood Development and Health Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Qualitative Aspects of Significant Accounting Policies and Practices

*Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Arizona Early Childhood Development and Health Board are described in Note 1 to the financial statements. No new accounting policies were adopted and application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Due to the nature of the Agency and its funding sources, there are no estimates that are particularly sensitive.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Audit Adjustments*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Attached is a summary of adjustments made to the financial statements that have been recorded by management. Also attached is a schedule summarizing uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 31, 2011.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Observations and Recommendations*

We observed the following matters which came to our attention during the course of the audit of the financial statements and offer these comments and suggestions with respect to these matters.

Trial Balance Review and Approval

During our audit inquiry and test work, we noted that there was no evidence that management had reviewed and approved the modified accrual basis trial balance submitted for audit. We recommend that management has a process in place to ensure that the trial balance used in financial statement preparation process is final, contains all valid journal entries made, and is in balance. A binder with a printed copy of the year-end trial balance could be maintained with an initialed and dated copy indicating review of same by the Deputy Director. That binder should also include all pertinent schedules relating to the final year-end numbers in the trial balance.

Payroll Report Approval

During our audit inquiry and test work, we noted that there is no written evidence that management has reviewed and signed off on the final bi-weekly payroll calculation prepared by the GAO. The Agency can and should print Form PR135 to view the hours and pay for each employee, to ensure there are no discrepancies. Various levels of management can then initial and date their respective departments as to review and approval for the calculated payroll. We also recommend that the biweekly register be reviewed on a monthly basis and signed by a manager to ensure that compensation represents payments for time work, and is accurately calculated and recorded, authorized and approved.

Accounts Payable

We noted accounts payable did not have supporting documentation by fund. A report produced after fieldwork by the Agency concluded accounts payable required interfund corrections. We recommend a report supporting accounts payable by fund be prepared, agreed to Great Plains software, and be available at the start of fieldwork.

This communication is intended solely for the information and use of Arizona Early Childhood Development and Health Board's Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Henry & Horne LLP*

Casa Grande, Arizona  
October 31, 2011





## FIRST THINGS FIRST

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Vice Chair  
Dr. Eugene Thompson

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Gayle Burns  
Hon. Cecil Patterson  
Dr. Pamela Powell  
Vivian Saunders

Ex-Officio Members  
Will Humble  
Director ADHS  
Clarence H. Carter  
Director DES  
John Huppenthal  
Superintendent ADE

Chief Executive Officer  
Rhian Evans Allvin

October 31, 2011

Henry & Horne, LLP  
1115 E. Cottonwood Lane, Suite 100  
Casa Grande, Arizona 85122

We are providing this letter in connection with your audit of the financial statements of Arizona Early Childhood Development and Health Board as of June 30, 2011 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the governmental activities and each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board and the respective changes in financial position in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of October 31, 2011, the following representations made to you during your audit:

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of Arizona Early Childhood Development and Health Board required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
  - a) Financial records and related data.
  - b) Minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the company involving—
  - a. Management,
  - b. Employees who have significant roles in internal control, or

- c. Others where the fraud could have a material effect on the financial statements.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the Board received in communications from employees, former employees, regulators, or others.
  - 8) The Board has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.
  - 9) The following have been properly recorded or disclosed in the financial statements, if applicable:
    - a. Related party transactions, including revenues, expenditures, loans, transfers, leasing arrangements, and guarantees.
    - b. Guarantees, whether written or oral, under which the Board is contingently liable.
    - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.
  - 10) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
  - 11) There are no—
    - a. Violations or possible violations of budget ordinances, laws or regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
    - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and should be disclosed in accordance with generally accepted accounting principles.
    - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with generally accepted accounting principles.
  - 12) The Board has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
  - 13) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that should be disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
  - 14) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved and accepted responsibility for those financial statements and related notes.
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- 15) The Board has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 16) Deposits and investment securities are properly classified in category of custodial risk.
- 17) The financial statements properly classify all funds and activities.
- 18) All funds that meet the quantitative criteria in GASB Statements Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 19) The Board has followed all applicable laws and regulations in adopting, approving and amending budgets.
- 20) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 21) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signature: \_\_\_\_\_

Title: \_\_\_\_\_


COO/CFO

11/2/11

11/2/2011  
8:57 AM

Client: #NAME?  
Engagement: #NAME?  
Period Ending: #NAME?  
Trial Balance: #NAME?  
Workpaper: #NAME?

Account	Description	W/P Ref	Debit	Credit
Proposed JE # 501				
To record liability to proper fund where expense was incurred.				
2542.1311	Payroll Accrual	M100	11,550.00	
2999.1311	Payroll Accrual			11,550.00
Total			<u>11,550.00</u>	<u>11,550.00</u>


  
11/2/11  
see attached

Client: #NAME?  
Engagement: #NAME?  
Period Ending: #NAME?  
Trial Balance: #NAME?  
Workpaper: #NAME?

*11/2/11*  
*per attachment*

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entry JE # 2</b>				
To correct PY fund balances			S-1, U101	
2542.4191	Luxury Tax		6,984,000.00	
2543.4191	Luxury Tax		775,999.00	
2542.3060	Fund Balance			6,984,000.00
2543.3060	Fund Balance			775,999.00
Total			<u>7,759,999.00</u>	<u>7,759,999.00</u>
<b>Adjusting Journal Entry JE # 3</b>				
To accrue June tobacco tax revenues collected in July per State Auditor General			D301	
2542.1100	Receivables		7,540,387.00	
2543.1100	Receivables		837,521.00	
2542.4191	Luxury Tax			7,540,387.00
2543.4191	Luxury Tax			837,521.00
Total			<u>8,378,208.00</u>	<u>8,378,208.00</u>
<b>Adjusting Journal Entry JE # 4</b>				
To accrue grant reimbursements requested for FYE 6-30 and received in July and September				
2000.1100	Accounts Receivable		14,463.00	
2000.4211	Federal Grants & Operating			14,463.00
Total			<u>14,463.00</u>	<u>14,463.00</u>
<b>Adjusting Journal Entry JE # 5</b>				
Client proposed entry to correct AP and add due to/from in accordance with expense transfers at year end.			L100	
2000.1211	Claims Payable		50,000.00	
2542.9200	Due From Other Funds		889,046.00	
2543.1211	Claims Payable		242,293.00	
2543.1311	Payroll Accrual		5,089.00	
2543.9200	Due From Other Funds		50,000.00	
2543.9200	Due From Other Funds		200,000.00	
2999.1211	Claims Payable		200,000.00	
2999.1211	Claims Payable		641,664.00	
2000.9300	Due To Other Funds			50,000.00
2542.1211	Claims Payable			889,046.00
2543.1211	Claims Payable			250,000.00
2543.9300	Due To Other Funds			247,382.00
2999.9300	Due To Other Funds			200,000.00
2999.9300	Due To Other Funds			641,664.00
Total			<u>2,278,092.00</u>	<u>2,278,092.00</u>



• Rev Only   
→ Backup for below

10/4/2011  
5:36 PM

Client: 0406217 - Arizona Early Childhood Development and Health Board  
Engagement: AECDEB - Arizona Early Childhood Development and Health Board  
Period Ending: 6/30/2011  
Trial Balance: 05.01 - TB  
Workpaper: 05.02 - Adjusting Journal Entry Report

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entry JE # 2</b>				
To correct PY fund balances		S-1, U101		
2542.4191	Luxury Tax		6,954,000.00	
2543.4191	Luxury Tax		775,999.00	
2542.3050	Fund Balance			6,954,000.00
2543.3050	Fund Balance			775,999.00
Total			<u>7,759,999.00</u>	<u>7,759,999.00</u>
<b>Adjusting Journal Entry JE # 3</b>				
To accrue June tobacco tax revenues collected in July per State Auditor General		D301		
2542.1100	Receivables		7,540,387.00	
2543.1100	Receivables		837,821.00	
2542.4191	Luxury Tax			7,540,387.00
2543.4191	Luxury Tax			837,821.00
Total			<u>8,378,208.00</u>	<u>8,378,208.00</u>
<b>Adjusting Journal Entry JE # 4</b>				
To accrue grant reimbursements requested for FYE 6-30 and received in July and September				
2000.1100	Accounts Receivable		14,463.00	
2000.4211	Federal Grants & Operating			14,463.00
Total			<u>14,463.00</u>	<u>14,463.00</u>

PRELIMINARY